

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Tony Hammond, Vice Chairman;
Mark Acton; and
Nanci E. Langley

Periodic Reporting
(Proposal Five)

Docket No. RM2017-9

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL FIVE)

(Issued February 6, 2018)

I. INTRODUCTION

On June 30, 2017, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider a proposal to change an analytical method approved for use in periodic reporting.¹ Proposal Five seeks to update the methodology used to divide accrued city carrier costs between the letter route and special purpose route (SPR) groups in the In-Office Cost System (IOCS). Petition at 1. For the reasons discussed below, the Commission approves a modified version of Proposal Five that uses Cost Ascertainment Group

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), June 30, 2017, at 1 (Petition). Accompanying the Petition were workpapers and a non-public annex. See Notice of Filing of USPS-RM2017-9/NP1 and Application for Nonpublic Treatment, June 30, 2017; Library Reference USPS-RM2017-9/NP1, Nonpublic Material Relating to Proposal Five, June 30, 2017.

(CAG)²-specific adjustment factors to adjust the current IOCS cost weighting factors,³ instead of the systemwide adjustment factors the Postal Service proposed, for the letter route and SPR cost pools.

II. PROCEDURAL HISTORY

On July 5, 2017, the Commission issued a notice initiating this proceeding, providing for the submission of comments, and appointing a Public Representative.⁴ On July 10, 2017, the Public Representative filed a motion for issuance of an information request, pursuant to 39 C.F.R. § 3007.3(c).⁵ On July 18, 2017, United Parcel Service, Inc. (UPS) filed its own motion for issuance of an information request.⁶ Chairman's Information Request No. 1 was issued on August 2, 2017.⁷ The Postal Service

² The Postal Service classifies post offices into CAG based on amount of revenue generated. See Glossary of Postal Terms at 28.
https://ribbs.usps.gov/addressing/documents/tech_guides/pubs/Pub32.pdf.

³ The IOCS cost weighting factor is specific to offices in each CAG and city carrier craft group. There are eight cost weighting CAG groups (A-H) for each of the two city carrier craft groups. See Docket No. ACR2016, Library Reference USPS-FY16-37, December 29, 2016, Excel file "IOCSDataDictionaryFY16.xls," variable "F264," in rows 1548-1555 and PDF file "USPS-FY16-37.pdf," Table 2 at 5 (USPS-FY16-37.pdf). The current IOCS cost weighting factor or cost based weight "is a dollar weight" in which the "[t]otal accrued cost for the stratum [CAG and city carrier craft group] is distributed to each employee in proportion to the employee's design weight relative to the total design weight for the stratum." USPS-FY16-37.pdf at 6.

⁴ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Five), July 5, 2017 (Order No. 3994).

⁵ See Motion of the Public Representative for Issuance of Information Request to the United States Postal Service (Proposal Five), July 10, 2017.

⁶ Motion of United Parcel Service, Inc. for Issuance of Information Request to the United States Postal Service, July 18, 2017.

⁷ Chairman's Information Request No. 1, August 2, 2017 (CHIR No. 1).

responded partially to CHIR No. 1 on August 9, 2017.⁸ On August 11, 2017, the Postal Service filed the remainder of its responses to CHIR No. 1.⁹

The Public Representative filed comments on August 16, 2017.¹⁰ UPS filed comments on August 17, 2017.¹¹

On October 4, 2017, the Commission issued CHIR No. 2.¹² The Postal Service filed its responses on October 19, 2017.¹³

III. PROPOSAL FIVE

Background. City carrier costs are developed in the Cost and Revenue Analysis (CRA) for two route groups: (1) letter routes; and (2) SPRs. Petition, Proposal 5 at 1. Within each CAG, the Postal Service uses the IOCS sample to apportion full-time city carrier costs and the costs of other part-time and transitional city carriers, such as City

⁸ Responses of the United States Postal Service to Questions 1-15, 19-20, and 23 of Chairman's Information Request No. 1, August 9, 2017 (August 9 Responses to CHIR No. 1). Accompanying the August 9 Responses to CHIR No. 1 were a public and non-public annex. See Notice of Filing of USPS-RM2017-9/1 and USPS-RM2017-9/NP2 and Application for Nonpublic Treatment, August 9, 2017.

⁹ Responses of the United States Postal Service to Questions 16-18 and 21-22 of Chairman's Information Request No. 1, August 11, 2017 (August 11 Responses to CHIR No. 1). The Postal Service also filed a motion for late acceptance of its responses to CHIR No. 1. Motion of the United States Postal Service for Late Acceptance of Responses to Questions 16-18 and 21-22 of Chairman's Information Request No. 1, August 11, 2017 (Motion). The Motion is granted.

¹⁰ Public Representative Comments, August 16, 2017 (PR Comments).

¹¹ Comments of United Parcel Service on Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Five), August 17, 2017 (UPS Comments). UPS also filed a motion for late acceptance of its comments. Motion of United Parcel Service, Inc. for Late Acceptance of Filing of Comments in Response to RM2017-9, August 17, 2017 (UPS Motion). The UPS Motion is granted.

¹² Chairman's Information Request No. 2, October 4, 2017 (CHIR No. 2).

¹³ Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 2, October 19, 2017 (Responses to CHIR No. 2).

Carrier Assistants (CCAs), between these two route groups.¹⁴

Proposal. Under Proposal 5, the Postal Service would determine the share of letter route and SPR group costs using the city carrier workhours clocked to certain Time and Attendance Collection System (TACS) Labor Distribution Codes (LDCs).¹⁵ Petition, Proposal Five at 1. The SPR group's share would be based on the share of city carrier workhours in LDCs 23, 24, and 27 and the letter route group share would be based on the workhours in LDCs 21, 22, 26, 28, 29, and 92.¹⁶

The proportion of letter route and SPR group workhours would be calculated separately for the two city carrier craft subgroups: (1) full-time city carriers; and (2) part-time and transitional city carriers. Petition, Proposal Five at 2. The route group workhour proportions would be applied to the total accrued city carrier costs for each of the two city carrier craft subgroups on a quarterly basis.¹⁷

¹⁴ The CAG group costs are distributed in proportion to the sample design weight for the stratum (CAG Group). The cost weighting factor is constructed so that weighted sums of IOCS sample data produce cost estimates consistent with trial balance accrued costs for each city carrier craft and CAG-grouping by quarter. See USPS-FY16-37.pdf at 6-7. "Beginning in FY2015, CAGs K and L were grouped together with the CAG H/J strata (Docket No. RM2015-9)." Response to CHIR No. 1, question 16.d.-e. The actual accrued payroll quarterly accounting data broken down by city carrier craft and CAG-finance group level are included in Docket No. ACR2016, Library Reference USPS-FY16-37, folders "ALB" "HQ624D01" in files "FY161," "FY162," "FY163," and "FY164." The second to last populated column in the files show the accrued quarterly costs for full-time city carriers and the last populated column in the files show the accrued quarterly costs for other part-time and transitional city carriers.

¹⁵ An LDC is "[a] two-digit code designating personnel costs for specific activities at all postal organizations and installations." See Glossary of Postal Terms at 59.
https://ribbs.usps.gov/addressing/documents/tech_guides/pubs/Pub32.pdf.

¹⁶ *Id.* The Postal Service states that "[c]ity carriers assigned to SPR clock to LDCs 23, 24 and 27, while carriers assigned to regular routes clock primarily to LDCs 21 and 22." *Id.* LDC value workhours are defined as 21-City Delivery – Office Time, 22-City Delivery – Street Time, 23-Other City Delivery; 24-Special Delivery, 26-Carrier Customer Support Activities, 27-Collections, 28-Tertiary – City Carrier, 29-Routers-Office, and 92-Training Delivery Services. See Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-2, 4-9, 11-13, 15-19, 23, 28, and 31-33 of Chairman's Information Request No. 3, January 13, 2017, question 1, Excel file "ChIR.3.Q.1.LDC.Workhours.xlsx;" Docket No. ACR2016, Library Reference USPS-FY16-46, March 1, 2017, Excel file, "ChIR.20.Q.10.LDC Definitions.pdf;" Docket No. R2006-1, Library Reference LR-L-55, May 3, 2006, file "LR-55.zip," folder "LR-L-55 electronic version (.doc & .excel)," subfolder "lr-l-55 part1," file "_Labor Distribution Codes.pdf."

¹⁷ Petition, Proposal Five at 2; see Responses to CHIR No. 1, question 20.b.

Each quarter, the Postal Service would develop four cost pool adjustment factors, ratios that scale the respective IOCS tallies' costs to the systemwide, TACs-derived SPR, and regular letter route cost pools (control totals) for each city carrier craft group.¹⁸ These systemwide adjustment factors would be used to adjust the IOCS sample records associated with costs specific to the CAG group and craft subgroup.

The Postal Service states that Proposal Five "relate[s] to the replacement of IOCS with TACS for purposes of dividing accrued city carrier costs between regular routes and [SPRs]."¹⁹ However, the Postal Service confirmed and clarified that the IOCS would continue to identify letter route and SPR office, street, and training activity costs, rather than the TACS LDC workhours alone, and that no IOCS sampling procedures would be modified as a result of Proposal Five. See August 9 Responses to CHIR No. 1, questions 7, 14.d.

Rationale and Impact. The Postal Service states that using TACS data can "reduce the variability of statistical estimates of costs by route group due to sampling"

¹⁸ The quarterly adjustment factor's numerator would be the systemwide TACS-developed SPR and letter route cost pools for each craft group and the denominator would be the respective same systemwide IOCS-estimated cost pools. The adjustment factor ratio is created in Library Reference USPS-RM2017-9/1, August 9, 2017, folder "SASPrograms," file "ALB104," at 3 and is called "CostControlMultiplier." The quarterly four respective TACS cost pool values are in the "TACSCostControlNum" variable and the IOCS cost pool values are in the "IOCSCostControlNum" variable. The Proposal Five TACS adjusted IOCS cost weight is the "TALCOST" variable which is used to reweigh the IOCS sample records to produce cost estimates under the Proposal Five methodology. See Library Reference USPS-RM2017-9/1, folder "SASPrograms," SAS file "PCCARMM16ByRouteType_TACSAdjPub.sas," code "dollar=(TALCOST/100)" associates the new adjusted cost weight to the sample record. The quarterly adjustment factor cost pool components (in variables named "TACSCostControlNum" and "IOCSCostControlNum") are included in Library Reference USPS-RM2017-9/1, folder "DataSet," SAS file "prcpub16_tacsadj.sas7bdat."

¹⁹ Petition at 1. The Postal Service avers that Proposal 5 "is analogous to its methodology of cost segment 3 for [Management Operating Data System] (MODS) 1 and 2 finance numbers, where MODS workhours are used to establish mail processing costpools." Petition, Proposal Five at 2. However, the TACS data do not replace the IOCS data. See Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 19, March 14, 2016, question 4.

because the TACS data are census data.²⁰ The Postal Service also states that “there are practical challenges in implementing the IOCS sample that may lead to systematic errors in the IOCS-based estimates of total costs for carrier work assignments, including route group totals.” Petition, Proposal Five at 2. The Postal Service identifies practical challenges such as new employees who are not sampled in the first 4 weeks of their employment, and carriers loaned to another office to assist with SPR deliveries who can be under-sampled in the IOCS.²¹ Another practical challenge is that carriers on letter routes spend some portion of their time on SPR activities, yet that time is understated in the IOCS because the data collector would code the activity to the letter route group. Petition, Proposal Five at 2-3. The Postal Service states that the “[u]se of census data from TACS would allow work activities of CCAs that are new, loaned or working within the Postal Service to be observed directly, eliminating the potential source of bias.” *Id.* at 3. Further, it stresses that “[t]hese issues are significant because CCAs are assigned to SPR much more frequently than regular full-time carriers.” *Id.*

The impact of Proposal Five on FY 2016 city carrier costs by route group would be an overall increase of approximately \$215.4 million in total SPR group costs and a corresponding decrease of approximately \$215.4 million in total letter route group costs. *Id.* Table 1 at 4. Proposal Five primarily impacts city carrier street time cost, with nearly \$200 million out of the \$215.4 million increase in total SPR group costs being due to the

²⁰ Petition, Proposal Five at 2. Nearly all carriers have electronic clock rings that are recorded in TACS. August 11 Responses to CHIR No. 1, question 21.a. However, the Postal Service states that in CAGs G-L offices in FY 2016, 621 carriers did not have clock rings in TACS (less than 10 percent of all city carriers in that CAG grouping) and “[f]or these carriers, Proposal Five will impute the ratios of route groups from the data obtained from Timeclock offices that do have clock rings.” August 9 Responses to CHIR No. 1, question 10.c.

²¹ Petition, Proposal Five at 2-3. The Postal Service states “[i]f the carrier is loaned to another office that does not have the same lead finance number, then IOCS does not conduct readings on the carrier, and no data are available to be used for cost attribution.” August 11 Responses to CHIR No. 1, question 16.c. In some circumstances, regular letter route carriers may be clocked to SPR LDC 23 workhours yet would likely be recorded in IOCS as assigned to the regular letter route cost group, e.g., “[d]uring peak season, [letter route] carriers may instead clock to an LDC 23 [SPR] MODS code. Nevertheless, if they are delivering to their regular letter route, they will likely be recorded in IOCS as assigned to their regular letter route.” See Docket No. ACR2016, Response of the United States Postal Service to Question 1 of Chairman’s Information Request No. 21, March 2, 2017, question 1.b.ii.

increase in the SPR group street time cost.²² The Postal Service notes that “the magnitude of the increase from using TACS data is by far greatest in [Quarter] 1” of FY 2016 because this is “when a large number of new carriers are hired for peak season” and “also the time when carriers may be assigned to SPR on short notice to assist with the high volumes of mail.”²³ For the letter routes group, approximately \$167 million out of the \$215.4 million decrease is due to the decrease in the letter route group street time cost.²⁴

The overall domestic product impact of Proposal Five on FY 2016 costs (including piggybacks) would be an increase of approximately \$61.6 million in total domestic competitive attributable costs and a decrease of approximately \$71.1 million in total domestic market dominant attributable costs. Petition, Proposal Five, Table 2 at 5-6.

At the class level, the impact of Proposal Five on FY 2016 city carrier costs (including piggybacks) would be a decrease of approximately \$55.0 million in the attributable costs of Standard Mail, a decrease of approximately \$10.7 million in the attributable costs of First-Class Mail, a decrease of approximately \$7.0 million of Periodicals costs, and an increase of approximately \$3.7 million in Package Services attributable costs. *Id.*

²² Petition, Proposal Five, Table 1 at 4. Compare Proposal Five SPR route group street costs in Excel file “CS06and7-RM2017-9.Prop.5.xlsx,” tab “Input IOCS,” cell “K21” (\$683,984,000) with Docket No. ACR2016, USPS-FY16-32, December 29, 2016, Excel file “CS06&7-Public-FY16.xlsx,” tab “Input IOCS,” cell “K21” (\$488,478,000). See August 11 Responses to CHIR No. 1, question 18.

²³ Petition, Proposal Five at 3. In FY 2016, the Postal Service identified November 21, 2015 through January 8, 2016, as its peak season. See *Peak Season USPS – Mailing Industry*, December 23, 2015, at 16. https://ribbs.usps.gov/mtac/documents/tech_guides/webinararchives/2015Webinars/PeakSeason122315Final.pdf.

²⁴ Petition, Proposal Five, Table 1 at 4. Compare Proposal Five letter route group street costs in the Excel file “CS06and7-RM2017-9.Prop.5.xlsx,” tab “7.0.4.1,” cell “D11” (\$11,729,825,000) with Docket No. ACR2016, USPS-FY16-32, Excel file “CS06&7-Public-FY16.xlsx,” tab “7.0.4.1,” cell “D11” (\$11,897,123,000). See August 11 Responses to CHIR No. 1, question 18.

IV. CHAIRMAN'S INFORMATION REQUESTS

Two chairman's information requests were issued in this docket. CHIR No. 1 requested clarification on city carrier activities and TACS clocking practices, as well as IOCS procedures for cost assignment. CHIR No. 2 requested further explanation of TACS clock rings and IOCS processes, and more precise definitions of the Postal Service's terminology.

TACS Procedures. In its responses to CHIR No. 1, the Postal Service explained its TACS procedures for "auxiliary assistance."²⁵ The Postal Service stated that it does not clock auxiliary assistance under the labor code for SPRs, LDC 23, even if the assistance given is to relieve a route by delivering parcels. August 9 Responses to CHIR No. 1, question 1.a. The Postal Service considers that assistance as part of the city carrier's letter route street time and attributes the time to the carrier's city delivery code, LDC 22.²⁶

Carriers usually clock auxiliary assistance to LDC 23 during peak season when they assist multiple routes.²⁷ This is because identifying a specific route to attribute the carrier's time is "extremely difficult." In non-peak periods, auxiliary assistance generally "would only be provided to one letter route, so the time and volume could be accurately assigned to the route that received the assistance." *Id.*

The Postal Service explained that, for LDC 22, the specific operation number used for a letter route is determined locally. *Id.*, question 1.b. For example, supervisors

²⁵ The Postal Service defines auxiliary assistance as "[t]he help that a city carrier receives because of unusually heavy mail volumes or other situations requiring help. The carrier who provides the help is called an auxiliary assistant."

https://about.usps.com/publications/pub32/pub32_terms.htm#ep1021753

²⁶ *Id.* However, a foot route that is supported by a motorized parcel route would only be credited with the typical volume delivered by the regular letter carrier. The parcel volume for that route would be credited to the supporting parcel route." *Id.*, question 15.f.

²⁷ The Postal Service explains that "[d]uring peak season, carriers may deliver parcels to multiple routes prior to beginning their normal assignment and, because of this, the time attributed to the delivery of those parcels for the different routes cannot be accurately assigned to each route while delivering, so the employee is placed in LDC 23 in order to allow the time used to run the SPR during peak to be documented." August 9 Responses to CHIR No. 1, question 15.c.

might classify a letter route with a vehicle as either a Residential letter route or a Mixed letter route. *Id.*

The Postal Service also explained how it ensures that employees record TACS data accurately. *Id.*, question 19. The Postal Service states that it “provides extensive training to supervisors on the proper procedures of accurately recording workhours using TACS.” The Postal Service explains that “supervisors are required to take an 8 hour . . . hands on course using the TACS training database.” *Id.* Additionally, supervisors receive training from “local management on the proper procedures for the Hyper Electronic Badge Reader (HEBR) and or manual documents” to ensure accuracy. *Id.*

Supervisors may also edit the TACS data when “a carrier moves to an incorrect assignment/operation, fails to input an assignment which was worked, loses their time badge, or a new employee has not received a time badge.” *Id.*, question 15.e. Furthermore, the Postal Service states that it also “issued guidance on the proper usage of the operation numbers within LDC 23.” *Id.*, question 1.a.

Systematic Errors. In CHIR No. 1, the Commission asked the Postal Service to elaborate on the possible systematic errors referred to in its Petition. CHIR No. 1, question 17. The Postal Service stated that for new employees, the “IOCS would systematically understate costs” associated with those activities if new employees have assignments and perform activities “that are different from those carriers that have been on the payroll for at least two pay periods.”²⁸ Similarly, if carriers who are loaned to another office conduct certain activities more frequently than other carriers at the same office, then those activities will be understated by IOCS. *Id.*

Under the current IOCS system “there is an inevitable delay between when a new employee begins work at the Postal Service and the first opportunity that an IOCS reading can be scheduled on that employee.” August 9 Responses to CHIR No. 1,

²⁸ August 11 Responses to CHIR No. 1, question 17.a. The Postal Service states that “new employee” assignments “may include more training activities and less letter route casing activities, for example.” *Id.*

question 14.e. For this reason, the Postal Service states that “[s]imply adding more IOCS readings” would not address the issue for new employees. *Id.*

The Postal Service explains that the potential systematic errors can apply to both full-time and other city carriers. August 11 Responses to CHIR No. 1, question 17.b. However, the Postal Service notes that systematic errors are more likely to apply to transitional carriers, such as CCAs. *Id.* CCAs have a higher turnover rate and, therefore, by proportion more CCAs are new employees. *Id.* The Postal Service states that it “is concerned” about CCA bias but “has not examined whether or not there is bias resulting from this issue.”²⁹ August 9 Responses to CHIR No. 1, question 14.c.

Furthermore, the Postal Service explains that “[t]hese carriers would not be directly observed by the current IOCS procedures, and their route types and activities are imputed from the carriers that can be observed by current IOCS procedures.” *Id.*, question 14.a. Under Proposal Five, their route group information would be recorded in TACS (by LDC workhours) and would be used in an adjustment. *Id.*

CHIR No. 2. CHIR No. 2 asked for more precise definition of several Postal Service terms such as “letter carriers,” “SPR carriers,” “bid carriers,” “Carrier Driver Routes,” and “auxiliary assistance” that were used in the Postal Service’s responses to CHIR No. 1. CHIR No. 2 also asked for the TACS clock rings and IOCS process for identifying and allocating costs to route groups. See CHIR No. 2.

The Postal Service explains that the terms “SPR carriers” and “letter carriers” refer to how the carrier is clocked in the MODS. Responses to CHIR No. 2, question 1.a. The MODS operation codes for these terms map to the TACS’s LDCs.³⁰ The Postal Service defines letter carriers as carriers who “routinely service the same set of delivery points in the same order daily.” Responses to CHIR No. 2, question 1.a. The

²⁹ “Systematic error or bias refers to deviations that are not due to chance alone.” See Penn State Eberly College of Science, “Lesson 4: Bias and Random Error,” <https://onlinecourses.science.psu.edu/stat509/node/26>, accessed December 13, 2017.

³⁰ See Docket No. RM2015-2, Library Reference USPS-RM2015-2/2, November 21, 2014, Excel file “chir1.q10.mods.xlsx.” See also Responses to CHIR No. 2, question 1.a., “Regular letter carriers are carriers who clock into a MODS operation code that maps to LDC 21 or 22.”

Postal Service contrasts them to SPR carriers, who “generally do not service the same set of delivery points daily” and do not “have a structured line of travel.” *Id.*

Additionally, the Postal Service states that “SPR carriers also are much more likely to perform *ad hoc* activities such as delivering Priority Mail Express or making trips between postal facilities.” *Id.*

The Postal Service also elaborates on its auxiliary assistance explanation, stating that, during non-peak season, SPR carriers “providing relief [including parcel delivery] to regular letter routes are clocked to LDC 21 for office activities or LDC 22 for street activities.”³¹ The Postal Service explains that because the street time of letter routes in LDC 22 is evaluated “to ensure that one route is not unnecessarily overburdened,” the hours required to deliver for a specific route “stay with that route.” Responses to CHIR No. 2, question 3. If a letter route needs repeated assistance, Postal Service management may decide that it should be split apart or further evaluated, or a carrier or union official may request a route evaluation. *Id.*

For IOCS sampled city carriers who are not assigned a route and not assisting another carrier with a specific route (sometimes referred to as route “99”), the Postal Service states that the “distribution of route 99 for this proposal is consistent with current IOCS methodology” and provides a table illustrating its cost allocation methodology for these associated activities and costs.³² The table shows how the Postal Service assigns the IOCS tallies associated cost to the letter route group, the SPR group, or to the overhead cost group. Responses to CHIR No. 2, question 6. The table demonstrates that the IOCS cost assignment for these city carriers is based primarily on their physical location and activity. *Id.* If the route type is unknown and the carrier is off the premises, then the activity costs are assigned to the SPR group street cost. *Id.* If the carrier is on the premises and handling mail, activity costs would be

³¹ *Id.*, questions 1.b., 1.d.; see August 9 Responses to CHIR No. 1, question 15.

³² August 9 Responses to CHIR No. 1, question 4; Responses to CHIR No. 2, question 6.

assigned to the letter route group office cost. *Id.* While not handling mail, on premise activity costs are allocated to the overhead cost group.³³

CHIR No. 2 also asked why the Postal Service's quarterly cost pool adjustment factors are uniform, rather than specific factors derived from the unique CAG group costs and data characteristics. CHIR No. 2, question 12.a. The Postal Service states that "[t]he most significant reason is the occurrence of empty cells."³⁴ It contends that "[i]f the CAG group were incorporated, some cells would have no allocated costs, resulting in inaccurate scaling and the loss of accrued costs." *Id.* The Postal Service states that "there would be no real benefit" from using adjustment factors developed at the CAG cost level because the regular route multipliers are fairly consistent. *Id.* Although the SPR multipliers can vary by CAG, the Postal Service contends that "the impact is not as significant" because "most of the readings are 'on the street.'" *Id.*

V. COMMENTS

UPS Comments. UPS agrees with the Postal Service that "using the TACS data would sidestep many of the practical challenges in using the IOCS data." UPS Comments at 2. For this reason, UPS concludes that "Proposal Five is an improvement over the legacy IOCS model." *Id.*

However, UPS states that "the Postal Service needs to ensure that guidelines for the use of LDC codes are clearly defined and followed by Postal Service staff." *Id.* at 3. UPS avers that, "[h]istorically, this has not been the case." *Id.* Specifically, it notes that "the LDC code used for delivery of parcels to a carrier's own letter route at unusual hours varies over the course of the year" and that the Postal Service has "admitted a need to 'standardize the use of LDC 23'" and "describes a large number of situations in

³³ The Postal Service notes that "[u]nknown office work described as 'General Office Work' is assigned to institutional cost. Responses to CHIR No. 2, question 6, n.4.

³⁴ Responses to CHIR No. 2, question 12.a. The Postal Service included with its Responses to CHIR No. 2, question 12.a., an Excel file "CHIR.2.Q.12.CAGs.Attach.xls," highlighting the rows/subgroups within the file where the CAG specific subgroups have no IOCS SPR group readings. "Carriers working SPR in CAG groups G and H are the primary cause of empty cells." *Id.*

which non-standard activities are carried out on a city letter route.” *Id.* Furthermore, UPS states that it is “unclear whether the criteria for classifying the costs associated with a specific activity as a regular delivery or SPR costs depend upon the nature of the activity, the nature of the route on which the activity is carried out, or the identity of the carrier performing the activity.” *Id.* at 4. It urges the Commission to seek greater clarity on these issues and attached a list of potential Postal Service questions for the Commission’s consideration. *Id.*, Appendix A.

Public Representative Comments. The Public Representative states that the improved accuracy of SPR counts is “convincing evidence of the potential benefits of using TACS rather than IOCS to separate accrued city [carrier] costs among Letter and SPR routes.” PR Comments at 2. He finds that “a data source based on census data such as TACS should be more representative than one based on sample data such as IOCS.” *Id.* at 4. However, he reserves judgement on support of Proposal Five due to several concerns raised in the Postal Service’s responses to CHIR No. 1. *Id.*

The Public Representative identifies three specific concerns related to how operation classification decisions will be made and proposes a solution for each concern. First, he “is concerned that Route 99 codes may increase due to a growth in SPR routes.” *Id.* If this occurs, he proposes that the Postal Service “should develop a threshold of share of routes with a 99 code, which defaults to categorizing them as SPR routes.” *Id.* Second, he is concerned about accurately categorizing local decisions on coding new or complicated route activities. *Id.* at 4-5. He recommends the Postal Service “establish a mechanism for carriers and managers to report local coding decisions so managers may develop appropriate policies to more accurately categorize new or complicated route activities.” *Id.* at 4 n. 2. Third, he states that “additional TACS training may be required so managers will be prepared to handle the potentially increasing complexity involving carrier activities on the street.” *Id.* at 5. The Public Representative states he would fully support Proposal Five if the Postal Service addresses his concerns.

VI. COMMISSION ANALYSIS

Based upon a review of the Postal Service's filing, supporting workpapers, and the comments of the participants, the Commission approves a modified version of Proposal Five that uses CAG group-specific adjustment factors to adjust the current IOCS cost weighting factors rather than the systemwide adjustment factors initially proposed for the letter route and SPR cost pools. Pursuant to 39 C.F.R § 3050.42, the Commission finds that the modified proposal significantly improves the quality, accuracy, and completeness of the methodology that the Postal Service uses to divide accrued city carrier costs between the letter route and SPR groups in the IOCS.

The Commission accepts the Postal Service's general contention that use of the TACS data can reduce the statistical variability of cost estimates by route group due to IOCS sampling.³⁵ The Commission agrees that the use of TACS data as a source is more comprehensive for the purpose of determining the share of costs for regular letter routes and SPRs than using the IOCS alone.³⁶

However, the Commission finds that using quarterly CAG-group specific factors will provide a more significant improvement to the Postal Service's methodology than the proposed quarterly systemwide adjustment factors. When used to adjust the IOCS, the proposed systemwide adjustment factors increase the IOCS-estimated SPR cost pool but do not fully scale to the actual accrued TACS city carrier SPR cost pool for all offices in the overwhelming majority of CAG groups.³⁷ At a more granular level,

³⁵ Despite being "concerned," the Postal Service states that it has not yet determined whether CCAs create a bias issue. August 9 Responses to CHIR No. 1, question 14.c. The Postal Service acknowledges that "[a]ll costpools could be affected by this potential source of bias." *Id.*, question 14.b.

³⁶ The Postal Service further states that: "Availability of these [TACS] data enables the possibility of replacing IOCS sampling with much more comprehensive census data." Petition, Proposal Five at 1. However, the Postal Service confirmed that under the Proposal Five methodology, no IOCS sampling changes would be made, the number of IOCS offices sampled would not be reduced, and the IOCS would still continue to be used to determine the office, street and training cost pools. See August 9 Responses to CHIR No. 1, questions 7, 14.

³⁷ Applying CAG group-specific adjustment factors results in an adjusted FY 2016 IOCS-estimated total city carrier SPR group cost pool of approximately \$768 million, compared to an estimated total city carrier SPR group cost pool of approximately \$756 million using the systemwide adjustment factors.

applying the systemwide adjustment factors to CAG A offices results in an adjusted IOCS-estimated SPR group cost pool greater than the actual accrued TACS SPR group cost pool for all offices in CAG group A.

Table 1 illustrates the current FY 2016 IOCS estimated SPR group cost pools for the city carriers in CAG group A-E offices and the results of applying the TACS systemwide adjustment factors and CAG group-specific adjustment factors.

Table 1
Comparison of TACS SystemWide versus CAG Group Specific Adjustment
Factors, FY 2016 City Carriers SPR Group Cost Pool
Estimates in CAG A-E Offices

	Total SPR Group Cost Pool^a (\$ thousands) By Office CAG Group				
	CAG A	CAG B	CAG C	CAG D	CAG E
Current IOCS- Estimate	\$213,617	\$121,246	\$105,190	\$43,598	\$36,569
SystemWide Adjusted IOCS Estimate	\$296, 565	\$170,036	\$148,705	\$60,014	\$51,492
CAG Group- Specific Adjusted IOCS Estimate	\$213,342	\$217,919	\$164,750	\$74,781	\$69,287
^a Quarterly adjustment factors are developed by each city carrier craft group. In this table, to illustrate the total impact on the city carrier SPR cost pools by CAG group for CAG A-E offices, both city carrier craft groups are combined. Source: Library Reference PRC-LR-RM2017-9/1.					

As shown in Table 1, the proposed systemwide adjustment factors produce SPR group cost pool estimates for each CAG group that differ from those estimated using CAG group-specific adjustment factors. While the results of the application of the systemwide factors for CAG groups B-E are less than the TACS SPR group costs accrued, the estimate for CAG group A is substantially greater than the accrued TACS SPR group cost pool for CAG group A offices.

The TACS systemwide and CAG group-specific adjustment factors currently produce materially similar total estimated overall letter and SPR cost pools. However, CAG group-specific adjustment factors will more accurately reflect year-to-year cost

pool changes within those offices and crafts. The modified proposal will better reflect further divergences in the relationship between IOCS and TACS costs for various CAG and craft groups. In addition, the higher costs per workhour in CAG B will make estimates based on CAG group-specific factors more accurate.³⁸

The Postal Service states that there are several reasons why CAG-specific adjustment factors were not initially proposed. Responses to CHIR No. 2, question 12.a. The “most significant” issue, it identified is the occurrence of empty cells “resulting in inaccurate scaling and the loss of accrued cost.” *Id.* This issue can easily be overcome.³⁹ The Postal Service also argues that there is “no real benefit” from using adjustment factors by CAG for carriers working letter routes. Responses to CHIR No. 2, question 12.a. Furthermore, it asserts that, for SPR carriers, most of the time readings are “on the street” so the impact of CAG-specific adjustment factors is not as significant. *Id.*

Nevertheless, because the IOCS estimates both the proportion of city carrier office and street costs,⁴⁰ monitoring the impact on these costs is significant. The Commission does not find the Postal Service’s argument that there would be “no real benefit” to CAG-specific adjustment factors persuasive, given that there are in-office costs associated with carriers working letter routes and SPRs that would be expected to differ by CAG group. Under the current IOCS sample design, in-office costs for carriers working letter routes and SPRs include activities on the premises such as the loading dock and parking lot. Activities such as handling mixed mail, checking the vehicle, loading the vehicle, training, clocking in and out, and break time costs would be

³⁸ City carriers in CAG B offices have much higher costs per workhour than city carriers in CAG A. See Library Reference PRC-LR-RM2017-9/1, Excel file “newchir.2.q.12.cags.attach elim zero cellsPRC.xlsx,” tabs “CAG A” and “CAG B.”

³⁹ “Empty cells” refers to no FY 2016 IOCS SPR group readings obtained for that craft and quarter. To eliminate empty cells, the Commission aggregates CAGs G and H. See Library Reference PRC-LR-RM2017-9/1.

⁴⁰ See Docket No. ACR2016, Library Reference USPS-FY16-37, file “USPS-FY16-37.pdf,” at 2-3.

expected to vary given the differing number of city carriers or motorized routes and the types or location of those routes.⁴¹

Other Issues Identified by Commenters: Both the Public Representative and UPS express concerns and questions related to the Postal Service's responses to CHIR No. 1 and CHIR No. 2. The concerns and questions touch upon the accuracy of TACS data, carrier clocking practices, local differences in the coding of city carrier costs, and the allocation of various city carrier activities costs to cost pools. The Postal Service provides a number of responses addressing these issues by attempting to delineate when a certain activity would be categorized as an SPR route group cost or letter route group cost, and when that decision may vary based on season, location, route assignment, or route assistance.⁴²

The Postal Service states that it has attempted to standardize the operation codes used in TACS LDC 23 and 24 workhours. August 9 Responses to CHIR No. 1, question 1.a. Regardless, designating an LDC as 23 or 24 would not affect the total number of SPR workhours used to develop the share of SPR costs under the Proposal Five methodology because the methodology combines workhours from LDCs 23, 24, and 27 to develop the SPR group share of total costs. Similarly, local decisions on the categorization of workhours and the specific MODS operation codes used within LDC 22 are not problematic because the TACS letter route share is based on the total letter route-related TACS workhours. Therefore, the local MODS coding decisions should not affect the total number of letter route group TACS workhours because Proposal Five aggregates workhours from LDC 21, 22, 26, 28, 29 and 92.

However, a recent USPS Office of the Inspector General report found that some city carrier Sunday workhours were logged in TACS to the letter route group LDCs (21,

⁴¹ See August 9 Responses to CHIR No. 1, question 10.

⁴² See August 9 Responses to CHIR No. 1, questions 1, 5, 6, 13, 15, 19, 23; Responses to CHIR No. 2, questions 1, 3, 5, 6, 15.

22) workhours rather than to the SPR route group LDC workhours.⁴³ In the Commission's review of the TACS workhours input files, it also noted city carrier workhours logged on Sundays to the LDCs associated with the letter route and training group workhours (LDC groups "DelREG" and "TrnDEL," respectively).⁴⁴ In future proceedings related to the processing of the TACS workhours, the Commission recommends that the Postal Service include an explicit step in its processing code to correct the appropriate Sunday-logged city carrier workhours that should be grouped with the SPR group workhours rather than the letter route group, based upon the day on which the workhours were logged. Further, it should also consider whether some of the training workhours logged on Sunday should be grouped with the SPR group, rather than the letter route group workhours.

The USPS OIG Audit Report also found that some city carriers did not clock out at the end of their workday. USPS OIG Delivery Charge Codes Audit Report at 2. Under the Proposal Five methodology, the SAS program "TACSUMQX" does contain code related to the end and start time of the employee.⁴⁵ The Postal Service states that this code is entirely independent and not related to Proposal Five. Responses to CHIR No. 2, question 11.a. The Postal Service states that it may relate to another proposal "if any such future proposal were advanced."⁴⁶

The Public Representative also expresses a concern that "Route 99" costs may increase upon implementation of the Proposal Five methodology. Because the Postal Service's methodology for allocating unassigned or unassignable city carrier costs

⁴³ See United States Postal Service Office of the Inspector General Audit Report, *Delivery Charge Codes*, January 19, 2018, at 4 (USPS OIG Delivery Charge Codes Audit Report).

⁴⁴ The four quarterly TACS workhours input text files "TACSCAG.FY16 . . ." were provided in Library Reference USPS-RM2017-9/1, folder "Input_Files."

⁴⁵ See Library Reference USPS-RM2017-9/1, folder "SASPrograms," file "TACSUMQX;" Responses to CHIR No. 2, question 11.a.

⁴⁶ *Id.*, question 11. The SAS program "TACSUMQX" contains a note related to the time split in the employee's day stating "[n]ote that this end_time is incorrect . . ." which should be clearly resolved and the inputs used within this program code should be included in the Postal Service's filing if it advances a proposal using these variables. See Library Reference USPS-RM2017-9/1, folder "SASPrograms," file "TACSUMQX."

varies, the Commission issued several questions related to these costs. See August 9 Responses to CHIR No. 1, questions 4, 5, 6. The Postal Service states that Proposal Five is consistent with the current IOCS methodology for costs that are unassigned to a route. The Postal Service's responses to these questions warrant further consideration to potentially increase the accuracy of city carrier costs for both the letter route and SPR groups. Specifically, by further examining the reasons for unknown ("Route 99") city carrier data, the Postal Service may be able to better classify these data, thereby assigning costs more accurately to a specific route group type.

In FY 2016, IOCS-estimated in-office "Route 99" costs were approximately \$181 million.⁴⁷ About \$63 million (35 percent) of these are coded to the IOCS activity code described in the Postal Service's response as "unknown" office work. Response to CHIR No. 2, question 6. In Order No. 339, the Commission encouraged the Postal Service to re-examine whether other city carrier activities costs treated as institutional, should be treated as volume variable.⁴⁸ In that proceeding, the Postal Service described the city carrier institutional cost activities as consisting largely of carrier route maintenance activities, administrative tasks, waiting for mail, communicating with supervisors or other employees, union activity, assisting customers, and transiting to or from their work area.⁴⁹ In this proceeding, for the cost of city carriers not assigned to a route group (route type depicted as "Unknown" in the response) and not handling mail, the Postal Service describes the institutional cost activity as "[u]nknown office work described as General Office Work [IOCS Activity Code-6420]." *Id.*; Responses to CHIR No. 2, question 6, n.4.

⁴⁷ See Docket No. ACR2016, Library Reference USPS-FY16-32, Excel file "CS06&7-Public-FY16.xlsx," tab "Input IOCS," cell "L22."

⁴⁸ Docket No. RM2009-10, Order on Analytical Principles Used in Periodic Reporting (Proposals Three through Nineteen), November 13, 2009, at 10 (Order No. 339).

⁴⁹ Docket No. RM2009-10, Responses of the United States Postal Service to Chairman's Information Request No. 1, September 29, 2009, question 4 (Docket No. RM2009-10, Responses to CHIR No. 1).

In FY 2016, the IOCS-estimated costs allocated to the General Office Work institutional costs code totaled approximately \$154 million.⁵⁰ Of these, “Route 99” costs were approximately \$63 million, letter route group costs were approximately \$90 million, and the SPR route group costs were approximately \$1.6 million.⁵¹ It is not clear to the Commission why and what portion of the carriers “general office” activities would be unknown because the IOCS data entry software prompts the data collector to specify the activity if the carrier’s activity is not one of the options listed to the IOCS questions.⁵²

In-office costs such as clocking in/out, training, loading/unloading the vehicle checking vehicle/keys/accountable/safety training are administrative costs that are considered system volume variable. Order No. 339 at 10. As the number of carriers changes in response to volume fluctuation, these types of administrative costs in total would tend to vary in rough proportion to the numbers of carriers.⁵³ About \$76 million of the Route 99 costs are due to these types of activities. Because these city carrier activities are indirectly volume variable when assignable to a route type or group, assigning more Route 99 unknown costs where possible, would potentially result in more accurate attribution of costs allocated in the CRA city carrier letter and SPR cost

⁵⁰ The Commission generated using the SAS dataset filed in Docket No. ACR2016, Library Reference USPS-FY16-37, folder “Data,” SAS file “PRCPub16.sas7bdat.”

⁵¹ *Id.* The Postal Service’s response and response table depict the Route 99 route type as “unknown.” Responses to CHIR No. 2, question 6. However, the IOCS description of the Route 99 route type is “In-Office Training.” See Docket No. ACR2016, Library Reference USPS-FY16-37, Excel file “IOCSDataDictionaryFY16.xlsx,” tab “Mainframe Layout,” cell D1665.

⁵² See Docket No. RM2009-10, Responses to CHIR No. 1, question 4; Docket No. ACR2016, Library Reference USPS-FY16-37, Excel file “IOCSDataDictionaryFY16.xlsx,” tab “Mainframe Layout,” questions “Q16F03A” and “Q16F03B.” in cells D313 and D320, respectively.

⁵³ Order No. 339 at 11. These are also referred to as the “OFFICE/STREET BURDENS.” See Docket No. ACR2016, Library Reference USPS-FY16-32, Excel file “CS06&7-Publi-FY16.xlsx,” tabs “7.0.4.1” and “7.0.5,” cells D40-D43 and H16-H18, respectively.

groups.⁵⁴ The Commission therefore encourages the Postal Service to examine the operational information related to “Route 99” IOCS tallies to determine if a more specific cost assignment for the office/street burden and institutional activities can be made to either the letter route or SPR route group costs rather than the overhead group of costs.

In conclusion, the Commission approves a modified version of Proposal Five that uses quarterly CAG-specific adjustment factors to adjust the current IOCS cost weighting factor, as discussed in the body of this order. The modification improves the accuracy of the Postal Service’s costing methodology by using the more comprehensive TACS data to adjust the IOCS estimated city carrier crafts letter route and SPR group cost pools closer to the CAG group offices costs in which the costs were accrued pursuant to 39 C.F.R. § 3050.42. Additionally, in its Annual Compliance Report (ACR) filing, the Postal Service shall file the input files (that also include the specific LDC codes for the workhours) and the TACS SAS program used to create the adjustment factors.

⁵⁴ See Docket No. ACR2016, Library Reference USPS-FY16-32, Excel file “CS06&7-Public-FY16.xlsx,” tab “7.0.6” Column AD-AF (letter route group) and Column R-T (SPR group). If left as a “Route 99” cost in the IOCS, these administrative costs are grouped with overhead costs. Given that the Postal Service assigns unassigned/unknown route type off premises activity costs to the SPR route group, it is feasible that a portion of the office/street burden costs logged as a Route 99 in the IOCS should also be assignable to the SPR route group.

VII. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Five with the Commission modification to the adjustment factor methodology are approved and the Postal Service is directed to provide the specified supporting materials discussed in the body of this order in its ACR filings.

By the Commission.

Stacy L. Ruble
Secretary